

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

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OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 OIC-04 AGR-20 DODE-00 H-03 INT-08 L-03 NSC-07

PA-04 SS-20 STR-08 TAR-02 USIA-15 PRS-01 FEA-02 SCI-06

DRC-01 /242 W

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P R 312001Z MAY 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 2873

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

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AMEMBASSY REYKJAVIK

AMEMBASSY ROME

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E.O. 11652: N/A

TAGS: EGEN, OECD

SUBJECT: MINISTERIAL COUNCIL DISCUSSION OF INFLATION,  
TRADE AND PAYMENTS, INVESTMENT, AND AID TO LDC'S

1. SUMMARY. MINISTERS AGREED THAT INFLATION PROBLEM REQUIRED PRIORITY ATTENTION, BUT DIFFERED IN ASSESSMENT OF APPROPRIATE POLICY RESPONSES. US, GERMANY AND JAPAN STRESSED PRIMARY IMPORTANCE OF DEMAND MANAGEMENT POLICIES, BUT MOST OTHERS PREFERRED GREATER DEPENDENCE ON SELECTIVE MEASURES AIMED AT SPECIFIC SECTORS AND PROBLEMS. MINISTERS ADOPTED DECLARATION ON TRADE AND CURRENT ACCOUNT MEASURES AS STEP OF MAJOR IMPORTANCE TO REDUCE RISK OF "BEGGAR-THY-NEIGHBOR" POLICIES AND TO MAINTAIN MOMENTUM FOR FURTHER TRADE LIBERALIZATION IN MTN. THEY AGREED ON NEED FOR OECD COUNTRIES TO ACCEPT OIL INDUCED CURRENT ACCOUNT DEFICITS, WHILE NOTING IMPORTANCE OF COOPERATIVE EFFORTS TO FACILITATE NECESSARY FINANCING THESE DEFICITS. MINISTERS WELCOMED INTENSIFICATION OF WORK ON INVESTMENT AND MNC'S AND NOTED THAT MEMBERS OF DAC AND SOME OTHER OECD MEMBER COUNTRIES WILL MAKE STRENUOUS EFFORT TO MAINTAIN AND ENLARGE FLOW OF DEVELOPMENT ASSISTANCE TO LDCS. END SUMMARY.

2. INFLATION AND EMPLOYMENT: MINISTERS AGREED WITH SECGEN THAT INFLATION PROBLEM WAS SERIOUS AND REQUIRED PRIORITY ATTENTION, BUT NOT ALL SHARED SECGEN'S PESSIMISM REGARDING DURATION OF PROBLEM AND DIFFICULTY OF FINDING SOLUTIONS. BOTH GERMANY AND US SPECIFICALLY DISASSOCIATED THEMSELVES FROM SECGEN'S PESSIMISTIC OUTLOOK, WITH US (STEIN) STRESSING IMMINENT PROSPECTS FOR IMPROVED PRICE PERFORMANCE DUE TO MORE MODERATE TRENDS IN FOOD AND ENERGY PRICES. THERE WERE ALSO  
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DIFFERENCES IN ASSESSMENT OF PRIMARY CAUSES OF INFLATION, WITH ITALY AND FRANCE STRESSING EXTERNAL IMPETUS FROM RISING COMMODITY PRICES, AND GERMANY, SWITZERLAND AND AUSTRALIA GIVING GREATER ATTENTION TO INTERNAL CAUSES. AUSTRALIA OBJECTED SPECIFICALLY TO EXCESSIVE EMPHASIS ON COMMODITY PRICE COMPONENT IN INTERNATIONAL INFLATION, NOTING THAT COMMODITIES HAD LONG BEEN DEPRESSED IN RELATION TO INDUSTRIAL PRODUCTS.

3. ABOVE VIEWS ON NATURE OF PROBLEM WERE REFLECTED IN

COUNTRY ASSESSMENT OF MOST APPROPRIATE POLICY RESPONSES. THOSE WHO WERE MOST PESSIMISTIC ABOUT ABILITY TO CONTROL INFLATION WERE GENERALLY THOSE WHO WERE MOST CONCERNED REGARDING EFFECTS OF ANTI-INFLATION POLICY ON EMPLOYMENT AND GROWTH (SPAIN, ITALY, FRANCE, NETHERLANDS). THESE COUNTRIES (PLUS UK, AUSTRIA, SCANDINAVIANS) WERE MORE LIKELY TO BELIEVE THAT CONVENTIONAL DEMAND MANAGEMENT MEASURES WOULD NOT BE SUFFICIENT AND WOULD HAVE TO BE SUPPLEMENTED BY DIRECT CONTROLS. THEY ALSO WERE MOST ENTHUSIASTIC ABOUT NEED FOR INTERNATIONAL COOPERATION IN MEETING PROBLEM. BY CONTRAST, THOSE COUNTRIES WHICH SHOWED MORE OPTIMISM ABOUT PROSPECTS FOR CONTROLLING INFLATION TENDED TO STRESS NEED FOR POLITICAL WILL TO CARRY THROUGH NECESSARY POLICIES, EVEN AT EXPENSE OF SOME DECLINE IN OUTPUT AND EMPLOYMENT BELOW POTENTIAL (US, GERMANY, JAPAN, IMF). THESE COUNTRIES EMPHASIZED CENTRAL ROLE OF DEMAND MANAGEMENT AND GENERALLY REJECTED SEC GEN SUGGESTION THAT LESS CONVENTIONAL POLICIES MIGHT BE NEEDED. ON BALANCE, MORE COUNTRIES CAME OUT IN SUPPORT OF SEC GEN IN THEIR ASSESSMENT OF INFLATION AND

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P R 312001Z MAY 74

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TO SECSTATE WASH DC PRIORITY 2874

INFO AMEMBASSY ANKARA  
AMEMBASSY ATHENS  
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NECESSARY RESPONSE TO IT, BUT THIS DID NOT INCLUDE  
LARGEST OECD COUNTRIES.

4. SPECIFICALLY, US CITED NEED FOR FIRM CONTINUED USE  
OF TRADITIONAL DEMAND MANAGEMENT POLICIES, AND REJECTED  
IMPLICATION THAT SUCH MEASURES HAD BEEN USED AND FOUND  
WANTING. US (STEIN) ATTRIBUTED SKEPTICISM ABOUT FUTURE  
OF INFLATION TO LACK OF CONFIDENCE IN GOVERNMENTS' WIL-  
LINGNESS TO STICK TO SUCH POLICIES. GERMANS AGREED  
THAT INFLATION MUST BE FOUGHT AT HOME, AND ONLY  
ELEMENT LACKING WAS POLITICAL WILL TO ACCEPT  
NECESSARY MEDICINE. JAPAN, IMF AND EEC ALL STRESSED  
CENTRAL ROLE OF DEMAND MANAGEMENT POLICY, ALTHOUGH  
RECOGNIZING THAT SUPPLEMENTARY MEASURES MIGHT BE NEEDED  
TO MEET INDIVIDUAL COUNTRY SITUATIONS. SEVERAL COUNTRIES  
(SPAIN, AUSTRALIA, CANADA) EMPHASIZED ANTI-INFLATIONARY  
ROLE OF TARIFF REDUCTIONS, AND OTHERS MADE SIMILAR LINK

WITH NEED FOR PROGRESS ON MULTILATERAL TRADE NEGOTIATIONS. US AND CANADA ALSO MENTIONED DESIRABILITY OF IMPROVEMENTS ON SUPPLY SIDE.

5. SEVERAL MINISTERS PROPOSED THAT OECD CONTINUE AND EXPAND ITS WORK ON INFLATION, WITH PARTICULAR ATTENTION TO CAUSES AND APPROPRIATE POLICY RESPONSES (CANADA, AUSTRIA, TURKEY, SWITZERLAND, NORWAY). OTHERS ENCOURAGED FURTHER WORK ON COMMODITY PRICE AND SUPPLY PROBLEMS (JAPAN, NORWAY, AUSTRALIA AND NEW ZEALAND). AUSTRALIA AND NEW ZEALAND MADE SPECIFIC POINT ABOUT POSSIBILITY OF TOO STEEP DECLINE IN COMMODITY PRICES AND NEED FOR PRICE STABILIZATION MEASURES. HOWEVER, US (STEIN) REJECTED THESIS THAT ANTI-INFLATION MEASURES SHOULD BE MODIFIED BY FEAR THAT COMMODITY PRICES MIGHT LIMITED OFFICIAL USE  
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FALL TOO FAR.

6. TRADE AND PAYMENTS. SECGEN SET TONE OF DISCUSSION BY NOTING THAT OECD COUNTRIES MUST ACCEPT DETERIORATION IN THEIR CURRENT ACCOUNT BALANCE PAYMENTS RELATED TO OIL PRICE HIKE. HE STRESSED IT WAS OF UTMOST URGENCY MEMBERS AVOID TRYING PASS DEFICITS FROM ONE TO THE OTHER. ACCEPTANCE DRAFT DECLARATION WOULD DRAMATICALLY REAFFIRM COMMITMENT TO INTERNATIONAL COOPERATION AND REESTABLISH WORLD CONFIDENCE THAT TRADE WAR WAS NOT IN OFFING. HE RECOGNIZED FINANCING PROBLEM WAS ESSENTIALLY ONE OF REDISTRIBUTION OF FUNDS FLOWING FROM OIL PRODUCERS.

7. MINISTERS UNANIMOUSLY ADOPTED DECLARATION ON TRADE AND CURRENT ACCOUNT MEASURES (SEPTTEL) AS STEP OF MAJOR IMPORTANCE IN MAINTAINING CURRENT LEVEL OF TRADE LIBERALIZATION AND AS PAVING WAY TOWARD FURTHER SUBSTANTIAL LIBERALIZATION IN MTN. IN FORCEFUL APPEAL TO CONGRESSIONAL ADVISERS ON US DELEGATION (SENATORS HARTKE AND FANNIN AND CONGRESSMEN PETTIS AND GIBBONS) SIR CHRISTOPHER SOAMES, SPEAKING FOR EC COMMISSION, SAID "WE WOULD PARTICULARLY WELCOME IT IF THE LEGISLATORS IN THE US CONGRESS WERE TO SHOW BY THEIR DEEDS THAT THEY SHARE WITH US THE VISION OF A LIBERAL WORLD ECONOMY THAT THEIR COUNTRY HAS DONE SO MUCH TO PROMOTE."

8 ALL COUNTRIES AGREED WITH SECGEN'S VIEWS THAT OIL DEFICITS HAVE TO BE TOLERATED. HOWEVER, SOME COUNTRIES (E.G., ITALY, UK, FINLAND, TURKEY, NEW ZEALAND) NOTED THAT SECRETARIAT DOCUMENT C(74)80 URGES COUNTRIES TO TAKE ACTION TO REMOVE UNDERLYING NON-OIL DEFICITS, AND THEY INTERPRETED SUCH ACTIONS AS NOT CONTRAVENING PRINCIPLES ENUNCIATED IN THE DECLARATION. NUMBER COUNTRIES (SWEDEN, DENMARK, UK) STRESSED NEED FOR THOSE

COUNTRIES IN STRONG BALANCE PAYMENTS POSITION TO MAINTAIN  
BUOYANCY IN THEIR ECONOMIES TO HELP COUNTRIES HAVING  
NON-OIL DEFICITS ADJUST TO THEIR PAYMENTS SITUATIONS.  
GERMANY SAID IT WAS READY TO ACCEPT DETERIORATION IN  
ITS CURRENT BALANCE, BUT NOTED ITS UNDERSTANDING THAT  
MEMBERS WOULD AGREE NOT TO RESIST STRUCTURAL CHANGES IN  
DEMAND BROUGHT ABOUT BY OIL PRICE HIKE. IMF (WITTEVEEN)  
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POINTED OUT THAT ALTHOUGH COUNTRIES IN STRONG PAYMENTS  
POSITION SHOULD AVOID ECONOMIC SLOWDOWN, THEIR ANTI-  
INFLATION POLICIES PUT A LIMIT TO EXTENT THEY COULD  
EXPAND. AMOUNT OF INTERNAL EXPANSION NEEDED TO IN-  
FLUENCE SIGNIFICANTLY THEIR BALANCE PAYMENTS SITUATION  
WOULD BE UNACCEPTABLE FROM DOMESTIC STANDPOINT. HE

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PA-04 SS-20 STR-08 TAR-02 USIA-15 PRS-01 FEA-02 SCI-06

DRC-01 /242 W

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P R 312001Z MAY 74

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TO SECSTATE WASH DC PRIORITY 2875

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

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SAID ADJUSTMENT BY SUCH COUNTRIES MAY HAVE TO TAKE PLACE ON EXTERNAL ACCOUNT VIA EXCHANGE RATE CHANGES, AND THE FLOATING SYSTEM WAS HELPFUL HERE. AS COROLLARY THOSE COUNTRIES THAT WERE EXTERNALLY WEAK SHOULD USE INTERNAL MEASURES FOR ADJUSTMENT AND AIM FIRST AT ELIMINATION THEIR NON-OIL DEFICITS.

9 ON FINANCING OF DEFICITS, A NUMBER OF COUNTRIES, (E.G., BELGIUM, ITALY, NORWAY, NETHERLANDS, FINLAND, TURKEY, NEW ZEALAND) NOTED SERIOUSNESS OF PROBLEM AND THOUGHT REDISTRIBUTION CAPITAL FLOWS FROM OIL PRODUCERS SHOULD NOT BE LEFT TO MARKET MECHANISM ALONE. THESE EXTRAORDINARILY LARGE FLOWS WOULD PUT EXISTING CAPITAL MARKETS UNDER SEVERE STRESS. ADDITIONAL FACILITIES WERE NEEDED, AND THEY WELCOMED IMF INITIATIVE ON SPECIAL FACILITY. BELGIUM ARGUED THAT TOTAL RESERVES NEED BE MOBILIZED IF DANGER RESTRICTIVE CURRENT ACCOUNT MEASURES WAS TO BE AVOIDED. TO THIS END BELGIANS SAID CENTRAL BANKS SHOULD BE PERMITTED TO SELL GOLD AMONG THEMSELVES AT NEAR MARKET RATE AND TO BUY GOLD ON FREE MARKET.

ITALIANS MADE POINT THAT OECD SHOULD GO BEYOND DECLARATION ON CURRENT ACCOUNT STANDSTILL, AND INVITED SECGEN TO INITIATE PROPOSALS FOR FINANCING OF PAYMENTS DEFICITS. HOWEVER, GERMANS SAW NO NEED FOR THIS IN OECD FRAMEWORK. SEVERAL COUNTRIES POINTED OUT NEED FOR CO-OPERATION IN MONETARY POLICIES, AND NOTED ROLE THESE POLICIES PLAY IN INFLUENCING CAPITAL MOVEMENTS.

10. ALL MEMBERS STRESSED OVERWHELMING NEED FOR CO-OPERATION ON BALANCE PAYMENTS ADJUSTMENT AND WELCOMED EARLY AGREEMENT ON GUIDELINES BEING WORKED OUT IN IMF'S C-20. THIS CONNECTION, SWEDEN AND ONE OR TWO OTHERS LIMITED OFFICIAL USE  
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THOUGHT THE FLOATING SYSTEM CONTRIBUTED TO EXPANSION OF INFLATION.

11. INTERNATIONAL INVESTMENT. SIX DELEGATES (U.S., GERMANY, JAPAN, NETHERLANDS, NORWAY AND THE EEC) SPECIFICALLY SUPPORTED AND URGED CONTINUATION OF OECD'S CURRENT WORK ON INTERNATIONAL INVESTMENT. U.S. STATE-MENT (REPORTED SEPTEL) INCLUDED STRONG ENDORSEMENT OF IMPORTANT PART PLAYED BY FREE FLOW OF CAPITAL AND INVESTMENT IN HELPING INTERNATIONAL ECONOMY TO ADJUST TO CHANGES BROUGHT ABOUT BY HIGHER OIL PRICES, AND PLACED HIGH PRIORITY ON OECD WORK IN INTERNATIONAL INVESTMENT AREA. GERMAN DELEGATE, WHILE SUPPORTING THE OECD WORK PROGRAM ON INVESTMENT, EMPHASIZED NEED FOR GREATER TRANSPARENCY IN ACTIVITIES OF MNCS, AND SUGGESTED THAT MNCS THEMSELVES WOULD HAVE TO ADJUST TO CHANGING POLITICAL AND ECONOMIC REALITIES. HE NOTED PROBLEM CREATED BY DIFFERENCES AMONG NATIONAL LAWS AS THEY APPLY TO MNC QUESTIONS.

NORWEGIAN DEL STRONGLY SUPPORTED DEVELOPMENT OF CODE OF CONDUCT FOR MNCS. EEC DEL EXPRESSED HOPE THAT XCSS WOULD CONTINUE TO MAKE PROGRESS IN CONSULTATION AND COOPERATION ON MATTERS HAVING TO DO WITH INTERNATIONAL INVESTMENT AND MNCS.

12. DEVELOPMENT ASSISTANCE. MINISTERS, INCLUDING THOSE IN NON-DAC COUNTRIES, UNIFORMLY SUPPORTED INCREASED EFFORTS TO PROVIDE HELP TO THOSE COUNTRIES MOST SERIOUSLY AFFECTED BY HIGHER PRICES OF OIL AND OTHER COMMODITIES. A NUMBER OF SPEAKERS INDICATED THEY WERE INCREASING THEIR TOTAL AID BUDGETS; SOME NOTED THAT THEY HOPED TO ATTAIN 0.7 PERCENT OF GNP TARGET FOR OFFICIAL DEVELOPMENT ASSISTANCE; OTHERS NOTED THAT, DESPITE ECONOMIC PROBLEMS IN THEIR OWN COUNTRIES, THEY WOULD TRY TO



DIRECT THEIR ASSISTANCE TO THOSE COUNTRIES WHICH WERE  
MOST IN NEED.

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PA-04 SS-20 STR-08 TAR-02 USIA-15 PRS-01 FEA-02 SCI-06

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P R 312001Z MAY 74  
FM USMISSION OECD PARIS  
TO SECSTATE WASH DC PRIORITY 2876  
INFO AMEMBASSY ANKARA  
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NEED TO TAKE ACCOUNT OF TRADE AND OTHER CAPITAL FLOWS IN CONSIDERING DEVELOPING COUNTRIES WAS ALSO MENTIONED BY A FEW SPEAKERS. A NUMBER OF DELEGATIONS -- LED BY DUTCH AND SWEDES -- PUSHED HARD FOR ALL COUNTRIES TO BE MORE FORTHCOMING WITH AID AND TO RELATE IT TO RECENT UN SPECIAL SESSION INITIATIVES. IMF MANAGING DIRECTOR WITTEVEEN EXPLAINED FUND'S PROGRESS IN PROVIDING SPECIAL HELP TO THESE COUNTRIES AND ENDORSED EFFORTS OF OECD.

13. THE BEHIND-THE-SCENES DIFFICULTIES IN OBTAINING AGREEMENT ON LANGUAGE FOR COMMUNIQUE ON DEVELOPMENT ASSISTANCE DID NOT SURFACE IN MINISTERIAL STATEMENTS. ONLY ONE DELEGATION (AUSTRIA) SUGGESTED AN EARLY HIGH LEVEL MEETING. DETAILED DISCUSSION OF DEVELOPMENT ASSISTANCE ISSUES TOOK PLACE IN WORKING LUNCH HOSTED BY DAC CHAIRMAN WILLIAMS, SPECIAL AD HOC GROUP OF DEVELOPMENT SPECIALISTS AND LENGTHY COMMUNIQUE DRAFTING SESSION. INITIAL SECRETARIAT DRAFT DID NOT CALL FOR EARLY HIGH LEVEL MEETING AND SUBSTITUTED GENERAL LANGUAGE ON OVERALL REQUIREMENTS FOR DEVELOPING COUNTRIES, RATHER THAN TARGET LEVEL TO BE MET BY MEMBERS OF DAC. US DELEGATION, LARGELY ISOLATED, OPPOSED SECRETARIAT DRAFT AND MADE ALL-OUT EFFORT TO ELIMINATE REFERENCE TO MAGNITUDE OF REQUIREMENT AND ANY INFERENCE THAT OECD GROUP SUPPORTED GENERAL CONCLUSIONS OF SIXTH SPECIAL SESSION OF UN GENERAL ASSEMBLY. FINAL LANGUAGE REPRESENTED A COMPROMISE, WITH REFERENCE TO AID REQUIREMENTS IN HIGHLY QUALIFIED TERMS AND MENTION OF UN GENERAL ASSEMBLY LINKED TO DEVELOPMENT ASSISTANCE ISSUES. SECRETARY-GENERAL SUMMED UP DISCUSSION ON THIS

AGENDA ITEM BY NOTING THAT COMMUNIQUE CONTAINED CON-  
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CLUSIONS OF GROUP AND THAT OECD WOULD EXPLORE VARIOUS  
MEANS OF ASSISTING MOST SERIOUSLY AFFECTED COUNTRIES,  
AND WOULD EXAMINE LONGER-TERM ADJUSTMENT NEEDS OF  
DEVELOPING COUNTRIES.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INFLATION, TRADE, LESS DEVELOPED COUNTRIES, MINISTERIAL MEETINGS, BALANCE OF PAYMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 31 MAY 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Original Previous Classification:** n/a  
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30 JUN 2005

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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MINISTERIAL COUNCIL DISCUSSION OF INFLATION, TRADE AND PAYMENTS, INVESTMENT, AND AID TO LDC'S  
**TAGS:** EGEN, OECD  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005